# Oil India Limited

December 30, 2022

## Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 295.00 | CARE AAA; Stable (Triple A; Outlook: Stable) | Reaffirmed |
| Long-term / Short-term bank facilities | 3,859.42 (Enhanced from 3,534.00) | CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable/ A One Plus) | Reaffirmed |
| Short-term bank facilities | 1,102.03 | CARE A1+ (A One Plus) | Reaffirmed |
| Long-term bank facilities | - | - | Withdrawn |
| Short-term bank facilities | - | - | Withdrawn |
| **Total bank facilities** | **5,256.45 (₹ Five thousand two hundred fifty-six crore and forty-five lakhs only)** | | |

Details of instruments/facilities in Annexure-1.

## Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Oil India Limited (OIL) continues to factor in its majority ownership by the Government of India (GoI), experienced and professional management, strategic importance of the company in supporting the country's energy security and development of hydrocarbon reserves in the north-eastern region, synergies post acquisition of controlling stake in Numaligarh Refinery Limited (NRL) in FY21 (refers to the period April 01 to March 31) from Bharat Petroleum Corporation Limited (BPCL) leading to increased footprint of OIL in the north-east India. The ratings further derive comfort from OIL's significant market position and a long track record in the domestic exploration and production (E&P) industry, the strong operational performance backed by robust E&P infrastructure and proven technical capabilities in both E&P and refinery business, coupled with its comfortable financial risk profile marked by healthy debt metrics and strong liquidity position. The long-term rating, however, remain susceptible to the inherent risk related to the E&P business, regulatory risks and large capex requirements.

Furthermore, the ratings assigned to certain long-term and short-term bank facility of OIL have been withdrawn with immediate effect, as the company has fully repaid the facilities and there is no amount outstanding under the same as on date.

## Rating sensitivities

**Positive factors – Factors that could lead to positive rating action/upgrade:** NA

**Negative factors – Factors that could lead to negative rating action/downgrade:**

- Sustained deterioration in the consolidated overall gearing ratio to beyond 1.0x
- Sustained decline in liquidity position due to decrease in free cash and bank balance along with current liquid investment of below ₹1,000 crore
- Reduction in the GoI stake to less than 51% in OIL

## Detailed description of the key rating drivers

**Key rating strengths**

**Strong parentage and strategic importance to GOI:** OIL was established in 1889 as Burma Oil Company (BOC) with the first discovery of crude oil in Digboi (Assam). In 1981, it became a wholly-owned GoI enterprise and came out with an IPO in 2009. As on September 30, 2022, GoI held 56.66% equity capital in the company. OIL is the second-largest premier Indian national oil company engaged in the business of exploration, development, and production of crude oil and natural gas, transportation of crude oil, and production of LPG. It contributed ~10% of India's total crude oil production and ~9% to India's

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

natural gas production during FY22. It continues to be of strategic importance in the Indian energy sector. As the largest player in north-east region, OIL plays a crucial role in the implementation of GoI policies in the oil & gas sector, with added presence across various segments in the sector.

**Experienced management**: OIL is managed by a team having substantial experience in the oil and gas industry. Mr. Ranjit Rath is the Chairman and Managing Director with an experience of over 25 years in the field of geosciences. Mr Harish Madhav, Director (Finance) is a member of the Institute of Chartered Accountants of India (ICAI) and has over 33 years of rich and varied experience in diverse fields of financial and treasury management, corporate accounts and audit. Mr Pankaj Kumar Goswami, Director (Operations), has over 32 years of experience in diverse fields of production of Oil & Gas, Geology & Drilling.

**Significant market position with adequate reserves providing revenue visibility:** OIL is the second-largest government-owned hydrocarbon exploration and production company in India. It had crude oil and natural gas domestic reserves (2P) of 70.86 million metric tonnes (MMT) and 58.60 billion cubic metres (BCM) respectively, as on March 31, 2022, with exploration rights over 69 blocks in India. Furthermore, the company has been effectively replenishing more reserves by maintaining the Reserve Replacement Ratio (RRR) of 1.11 in FY22 (PY: 1.16) and the ratio has remained consistently above unity over the years. Apart from the domestic reserves, OIL has 16 international projects spread over US, Russia, Africa (Mozambique, Gabon, Libya & Nigeria) and Bangladesh. Furthermore, OIL had crude oil and natural gas overseas reserves (2P) of 30.67 million metric tonnes (MMT) and 19.98 BCM (Billion Cubic Meters), respectively, as on March 31, 2022.

**Robust infrastructure and proven technical capabilities:** The oil & gas industry is a capital-intensive industry, which requires large funds and substantial time to develop a sound infrastructure. With its long track record of operations of more than six decades, the company has been able to develop a robust infrastructure and an in-house expertise providing it an advantage over newer players in the industry. OIL has developed significant onshore and offshore production facilities, subsea and land pipelines, gas processing, drilling and work-over rigs, storage facilities and other infrastructure located throughout the principal oil and gas-producing regions of India. OIL drilled seven exploratory wells during FY22 as compared to twelve during FY21. The company also made one gas discovery in Assam. During the year, OIL acquired 25 blocks in OALP Round covering a total area of 48,796 sq. km.

**Presence across the hydrocarbon value chain:** From an E&P player, OIL has gradually expanded its operations in refining and petrochemicals thereby making presence across the hydrocarbon value chain. As on March 31, 2022, in the downstream operations (refining and marketing) it had 69.63% stake in Numaligarh Refinery Ltd (NRL), which operates a 3MMTPA refinery, being expanded to 9MMTPA (at an investment of ₹22,500 crore, to be completed in the next 3-4 years) in Numaligarh (Assam) and has a 10% stake in Brahmputra Cracker and Polymer Ltd (BCPL), which is establishing a gas-cracker project in Dibrugarh (Assam). Furthermore, the company also holds 5.16% equity in Indian Oil Corporation Ltd. In the transportation segment, the company has crude transportation pipelines of over 1,157 km and multi-product pipeline of 660 km, along with ownership of 23% equity in DNP Ltd, which has an established gas pipeline from Duliajan to Numaligarh (Assam). OIL also has renewable energy installed capacity of 188 MW (174 MW in wind power and 14 MW in solar power).

**Improved operating performance:** The consolidated total operating income of the company registered a healthy increase of ~33% in FY22, to ₹30011 Cr., on the back of increased demand for crude oil, natural gas and petroleum products and better realisations due to higher crude oil prices. Accordingly, the PBILDT and PAT margin of the of the company also improved to 38.34% and 22.39% in FY22, respectively, compared to 30.78% and 18.44% in FY21, respectively. In H1FY23 (UA), the company has reported a total operating income of ₹20,244 Cr., registering a year-on-year increase of 48%, with PBILDT margins of 39.52% (PY: 34.41%). The improvement has mainly been on the back of better sales realisations in E&P segment and healthy product cracks in refining. The Numaligarh refinery, with 3 MMTPA capacity and a nelson complexity index of 9.61, reported Gross Refining Margins (GRM) of 14.33 USD/BBL in FY22. NRL, on a standalone basis, has reported a total operating income of ₹23,667 crore, with PAT of ₹3562 crore, in FY22 (₹13,769 crore and ₹3,036 crore, respectively, in FY21).

**Comfortable financial risk profile:** The overall gearing ratio improved to 0.51x, as on March 31, 2022, compared to 0.80x, as on March 31, 2021 on the back of accretion of healthy profits to the net-worth and lower short-term borrowings at the end of the year. With the lower debt and better profitability, the debt coverage indicators viz. interest coverage ratio and total debt/ PBILDT /improved to 12.24x and 1.45x, respectively (PY: 10.48x and 2.85x, respectively). The debt profile in FY21 also included incremental debt taken by the company to acquire an additional 54.16% stake in Numaligarh Refinery Limited (NRL).

## Key Rating Weaknesses

**Risk related to the E&P business and fluctuation in the crude oil prices:** In addition to a highly capital-intensive activity, E&P business has long gestation period. The exploration activity involves high uncertainty with respect to estimation of reserves as it is a function of the quality of the available data engineering and geological interpretation. Furthermore, the company is also exposed to the commodity price risk since the bulk of the revenue comes from the sale of crude oil and gas. Any decrease in the price of the crude oil and gas may hamper the profitability of the company. Prices of crude oil and gas depend on various factors including policies by major producers of crude oil, global as well as regional demand variations, geopolitical situations, market sentiment and government policies.

After a range-bound couple of years of crude price movement, the crude price (brent) had fallen sharply since early March 2020. The fall was triggered on account of a supply glut in the market by Saudi Arabia and Russia which was later aggravated on account of a decline in the demand for petroleum products due to COVID-19. However, the crude prices subsequently started recovery from Q3FY21 onwards and increased dramatically in Q4FY22 due to the Russia-Ukraine conflict. In the immediate succeeding quarter, since several OPEC+ members were not able to meet their production share, the prices continued to remain elevated (average prices in Q1FY23 stood at US$ 112.8 per barrel as compared with US$ 99.5 per barrel in Q4FY22 and US$ 79.4 per barrel in Q3FY22). However, with concerns about world economic growth, the crude oil price declined to US$ 99 per barrel in Q2FY23 and further plummeted to ~US$ 82 per barrel in the third week of December.

The outbreak of the COVID-19 pandemic had led to GRMs of global refiners plummeting to the lowest levels in a decade, as demand for refined products crashed, thereby impacting the crack spreads, while a significant decline in crude oil and refined products prices resulted in substantial inventory write-downs in FY21. The Singapore benchmark GRMs reduced to just US$ 3.25 per barrel in FY20 and further to US$ 1.20 per barrel in FY21, amid weak demand and high fluctuation in prices. Such low yearly GRMs were last seen in FY10. However, with the impact of the COVID-19 pandemic receding and global economies coming back on the recovery path, the GRMs have improved significantly. The Singapore benchmark improved to US$8.60 per barrel in FY22 and further improved to US$ 21.5 in Q1FY23 and US$ 7.1 in Q2FY23. Improved crude oil demand and healthy GRMs have resulted in improved profitability margins for E&P and refinery companies like OIL. Going forward, the crude oil demand/ prices and GRMs shall remain dependent on the health of the major world economies. Further, any major increase in the number of Covid cases and subsequent lockdowns owing to the same could also impact the operational & financial performance of companies like OIL.

**Large capex requirements:** During the last couple of years, the average capex of OIL (Standalone) per annum has been around ₹4,000- ₹4,500 crore. The same trend is expected to continue in the ensuing years distributed between expenditure on development drilling, exploration drilling, capital equipment, overseas project, surveys and R&D. The large capex requirements and long gestation periods of E&P projects have a bearing on the company's return indicators although it has a sound financial position to fund its capex requirements. The company is also implementing capacity expansion of Numaligarh Refinery from 3 to 9 MMTPA at an investment of ₹28,026 crore, to be completed in the next 3-4 years, which also includes constructing a crude oil import terminal at the Paradip port in Odisha and laying of a 1,635 Km long pipeline from Paradip port to the refinery in Numnaligarh. The project will be funded 70% by debt and remaining through the internal accruals and equity infusion. Despite the availment of additional debt to fund the capex, the financial risk profile of the company is expected to remain satisfactory.

**Regulatory risk:** The GoI's policy and decisions with respect to natural gas pricing (APM Mechanism), subsidy sharing, and dividend payments have a significant bearing on OIL's profitability, cash flows and liquidity position. During elevated prices of crude, the GoI may choose to pass on the fiscal burden via sharing of profits of PSUs through higher fiscal levies, higher dividend declaration or providing discounts to OMCs which may impact the income and accruals. As has been seen in the recent past (starting July-2022), the GOI has been imposing Special Additional Excise Duty (SAED) on the production of crude oil, and export of MS, HSD and ATF, which underscores the susceptibility of financial risk profile of companies like OIL to the government interventions. However, such tax incidences are likely to be self-correcting in nature if the product margins normalise.

## Liquidity: Strong

OIL's liquidity remains strong as it derives financial flexibility from its GoI parentage. It is further strengthened by projected GCA of over ₹9,000 crore in FY23. There is no LT debt repayment in FY23. The free cash and cash equivalents stood at a comfortable level of ₹1,525 crore as on March 31, 2022. The current ratio of the company also remained at a comfortable level of 1.32x, as on March 31, 2022. OIL (Standalone) has planned a capex of around ₹4389 crore in FY23 for survey, development drilling, exploratory drilling, capital equipment, etc, to be funded through internal accruals. Further, NRL has proposed an expansion project which will be completed by FY25. The capex is proposed to be funded in a D:E ratio of 70:30. With an overall gearing of 0.51 times as on March 31, 2022, OIL has sufficient gearing headroom to avail debt for funding of its planned capex.

**Analytical approach:** Consolidated while factoring in linkages with the Government of India.

## Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Government Support
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

## About the company

OIL was established as Burma Oil Company (BOC), with first discovery of crude oil in Digboi (Assam) in the year 1889. 'Oil India Private Ltd' was incorporated on February 18, 1959 and later became 50:50 joint venture (JV) among BOC and GoI. In 1981, it became a wholly-owned GoI enterprise and came out with an IPO in 2009. OIL, a Navratna PSU, is engaged in exploration, development and production of crude oil and natural gas, transportation of crude oil and production of LPG. OIL also provides various E&P related services and holds 69.63% equity in Numaligarh Refinery Ltd (NRL) which is operating a 3 million metric tonnes per annum (MMTPA) refinery at Numaligarh (Assam).

| Brief financials of Oil India Limited- Consolidated (₹ crore) | FY21(A) | FY22 (A) | H1FY23(UA) |
|---|---|---|---|
| Total operating income | 22484 | 30011 | 20244 |
| PBILDT | 6921 | 11506 | 7999 |
| PAT | 4146 | 6719 | 5346 |
| Overall gearing (times) | 0.80 | 0.51 | NA |
| Interest coverage (times) | 10.48 | 12.24 | 15.94 |

A: Audited; UA: Unaudited; NA: Not Available; Financials are reclassified as per CARE Ratings standards

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company**: Annexure-4

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 295.00 | CARE AAA; Stable |
| Fund-based - LT-Term Loan | | - | - | - | 0.00 | Withdrawn |
| Fund-based - ST-Term loan | | - | - | - | 0.00 | Withdrawn |
| Non-fund-based - LT/ ST-Bank Guarantee | | - | - | - | 3859.42 | CARE AAA; Stable / CARE A1+ |
| Non-fund-based - ST-Bank Guarantee | | - | - | - | 702.03 | CARE A1+ |
| Non-fund-based - ST-BG/LC | | - | - | - | 400.00 | CARE A1+ |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Cash Credit | LT | 295.00 | CARE AAA; Stable | - | 1)CARE AAA; Stable (04-Oct-21) | 1)CARE AAA; Stable (26-Mar-21)<br><br>2)CARE AAA; Stable (11-Feb-21) | 1)CARE AAA; Stable (07-Feb-20) |
| 2 | Non-fund-based - ST-BG/LC | ST | 400.00 | CARE A1+ | - | 1)CARE A1+ (04-Oct-21) | 1)CARE A1+ (26-Mar-21)<br><br>2)CARE A1+ (11-Feb-21) | 1)CARE A1+ (07-Feb-20) |
| 3 | Non-fund-based - ST-Bank Guarantee | ST | 702.03 | CARE A1+ | - | 1)CARE A1+ (04-Oct-21) | 1)CARE A1+ (26-Mar-21)<br><br>2)CARE A1+ (11-Feb-21) | 1)CARE A1+ (07-Feb-20) |
| 4 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST* | 3859.42 | CARE AAA; Stable / CARE A1+ | - | 1)CARE AAA; Stable / CARE A1+ (04-Oct-21) | 1)CARE AAA; Stable / CARE A1+ (26-Mar-21)<br><br>2)CARE AAA; Stable / CARE A1+ | 1)CARE AAA; Stable / CARE A1+ (07-Feb-20) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | (11-Feb-21) | |
| 5 | Fund-based - LT-Term Loan | LT | - | - | - | 1)CARE AAA; Stable (04-Oct-21) | 1)CARE AAA; Stable (26-Mar-21) | - |
| 6 | Fund-based - ST-Term loan | ST | - | - | - | 1)CARE A1+ (04-Oct-21) | 1)CARE A1+ (26-Mar-21) | - |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** NA

**Annexure-4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |
| 3 | Fund-based - ST-Term loan | Simple |
| 4 | Non-fund-based - LT/ ST-Bank Guarantee | Simple |
| 5 | Non-fund-based - ST-Bank Guarantee | Simple |
| 6 | Non-fund-based - ST-BG/LC | Simple |

**Annexure-5: Bank lender details for this company**

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| To view the lender wise details of bank facilities please click here |

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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